

Message Text

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C O N F I D E N T I A L STATE 035668

HOLD FOR OPENING OF BUSINESS

E.O. 11652: GDS

TAGS: EGEN, NATO, XH, MPOL

SUBJECT: ECONADS: ECONOMIC APPRECIATION FOR DPC
MINISTERIAL GUIDANCE 1977

REF: A) USNATO 498; B) STATE 29649; C) USNATO 836;
-- D) AC/127-WP/499; E) AC/127-WP/500

1. THERE FOLLOW IN PARAS. 2 AND 3 FURTHER COMMENTS ON
REFS. D AND E RESPECTIVELY. WITH THESE SUGGESTIONS AND
CHANGES AND THOSE SET OUT IN REF B, US ECONAD MAY INDICATE
OUR APPROVAL OF BOTH DOCUMENTS.

2. RE AC/127-WP/499
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-- PARA. 56 - SECOND SENTENCE SHOULD BE AMENDED TO
READ: "SEVERE MANPOWER SHORTAGES WILL CONTINUE IN
HUNGARY, CZECHOSLOVAKIA, AND THE GDR." THE NONAGRICULTURAL
LABOR FORCE IN THE GDR GREW MORE SLOWLY FROM 1971
TO 1975 THAN IN ANY OTHER COUNTRY IN THE REGION. FURTHER-
MORE, A SHORTAGE OF SKILLED WORKERS IS LIKELY TO BE

FELT MORE CRITICALLY IN THE MORE HIGHLY DEVELOPED GDR
THAN ELSEWHERE.

-- PARA. 61 - AMEND SECOND SENTENCE TO READ: "OBSCULENT
PLANTS, LACK OF INCENTIVES TO INNOVATION..."

-- PARA. 62 - ADD POLAND TO SECOND SENTENCE.

-- PARA. 63 - WE DOUBT WHETHER WHOLE PLANT PURCHASES
IN THE WEST HAVE RESULTED FROM A "BLOC DECISION."
ALSO, SUCH PURCHASES REFLECT FAILURES IN THE OPERATION OF
DOMESTIC R&D (ESPECIALLY IN LINKAGES BETWEEN RESEARCH
AND COMMERCIAL IMPLEMENTATION) MORE THAN A DECISION
TO FOREGO R&D IN SELECTED SECTORS. FIRST SENTENCE MIGHT
BE AMENDED TO READ: "RECENT PURCHASES IN THE WEST OF
ENTIRE PLANTS (E.G. KAMA TRUCK FACTORY) REFLECTS THE
REALIZATION IN SEVERAL COUNTRIES OF A NEED TO SUPPLEMENT
INADEQUATE DOMESTIC R&D CAPABILITIES."

-- PARA. 66 - MESSAGE OF THIS PARAGRAPH IS CONFUSING.
THE EXTENT OF EE DEPENDENCE ON IMPORTS OF SOVIET CRUDE OIL
SHOULD BE DIFFERENTIATED BY COUNTRY. THE FACT THAT
EASTERN EUROPE CONTINUES TO BENEFIT FROM CONCESSIONARY
PRICING, AND THE OPPORTUNITY COST TO THE USSR OF OIL
SALES TO EASTERN EUROPE SHOULD BE MENTIONED AS A COUNTER-
WEIGHT TO SOVIET "LEVERAGE" IN EASTERN EUROPE. "SHORT-
FALLS IN SUPPLIES IN THE 1980'S" MENTIONED IN THE LAST
SENTENCE IS UNCLEAR; DOES IT REFER TO CRUDE OIL OR
NATURAL GAS, OR BOTH? WHAT CHOICES WOULD THE USSR
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MAKE BETWEEN EXPORTS AND DOMESTIC CONSUMPTION?

-- PARA. 69 - LAST SENTENCE IS VAGUE AND UNSUBSTANTIATED.
IT SHOULD EITHER BE EXPLICATED OR DROPPED.

-- PARA. 85 - WE SUGGEST THAT THIS PARAGRAPH SET FORTH
THE BASIC THESIS THAT THE PHENOMENAL RATE OF GROWTH OF
EAST-WEST TRADE SINCE 1970 HAS BEEN POSSIBLE ONLY THROUGH
VERY LARGE HARD CURRENCY CREDITS TO EASTERN EUROPE AND
THE USSR. IN ORDER TO REDUCE THEIR HARD CURRENCY INDEBTED-
NESS AND SECURE CONTINUED ACCESS TO CREDITS, THESE
COUNTRIES EVENTUALLY WILL HAVE TO RUN A SURPLUS IN
TRADE WITH THE WEST. IT APPEARS UNLIKELY, HOWEVER, THAT
THIS RESULT CAN BE ACHIEVED BEFORE 1980, AND PERHAPS NOT
THEREAFTER, ESPECIALLY GIVEN THE SLUGGISH PACE OF WESTERN
ECONOMIC RECOVERY AND CONTINUED INCREASES IN THE PRICES
OF RAW MATERIALS.

-- PARA. 90 - THIRD SENTENCE SHOULD BE REVISED AS

FOLLOWS: "SOVIET AND EAST EUROPEAN MERCHANT AND FISHING FLEETS, TOGETHER WITH THE SOVIET NAVY, CONSTITUTE A SIGNIFICANT PART OF THE PACT ECONOMIC ACTIVITIES AND CONTRIBUTE TO ITS MILITARY POTENTIAL."

3. RE AC/127-WP/500:

--PARA. 10 - PENULTIMATE SENTENCE SHOULD BE REVISED TO READ: "THE INCREASE IN THE CIVILIAN AIR FLEET WILL PROVIDE A POTENTIALLY LARGE CAPABILITY FOR TROOP TRANSPORTS, ALTHOUGH NOT FOR TRANSPORT OF OUTSIZE MILITARY EQUIPMENT."

--PARA. 14 - SIXTH AND SEVENTH LINES SHOULD BE REVISED AS FOLLOWS: "... THAT THE EXPECTED GROWTH OF THE CIVILIAN ECONOMY WILL IMPROVE THE ABILITY, IF NEED BE, TO BUILD UP THE CAPABILITIES OF THE MILITARY MACHINE..."

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--PARA. 16 - WE QUESTION WHETHER THE USSR DESIRES TO PREVENT OTHER CEMA COUNTRIES "FROM SEEKING AID IN THE WEST." THE SOVIETS ARE ACUTELY CONSCIOUS OF THE ECONOMIC BURDEN EASTERN EUROPE REPRESENTS TO THEM, HAVE ENCOURAGED THE GROWTH OF EAST-WEST TRADE, AND WILL CONTINUE TO DO SO PROVIDED THAT THEY MAINTAIN POLITICAL AND MILITARY CONTROL.

--PARA. 21 - WE BELIEVE FIRST SENTENCE SHOULD BE DELETED SINCE WE ARE NOT AWARE OF ANY RECENT ANALYSES IN WHICH TOTAL NATO AND TOTAL WARSAW PACT PROGRAMS HAVE BEEN COSTED IN DOLLAR TERMS ON A COMPARABLE BASIS. WE CANNOT AGREE TO THE INCLUSION OF ANY STATEMENTS CONCERNING THE MAGNITUDE OF TOTAL NATO VERSUS TOTAL WARSAW PACT DEFENSE SPENDING UNTIL WE HAVE AN OPPORTUNITY TO REVIEW THE ANALYSIS SUPPORTING SUCH STATEMENTS.

--PARA. 21 - THIRD SENTENCE SHOULD ALSO BE DELETED. THE MEANING OF "INDICATE A REGULAR TREND TOWARD A DECLINE: IS UNCLEAR. BASED ON INFORMATION GENERATED DURING THE MOST RECENT NATO DEFENSE PLANNING REVIEW AND OTHER AVAILABLE DATA, INDICATIONS ARE THAT THE TREND IN TOTAL NATO DEFENSE SPENDING WILL INCREASE IN REAL TERMS DURING THE NEXT SEVERAL YEARS.

--PARA. 22 - FIRST SENTENCE SHOULD BE REVISED AS FOLLOWS: "NATO'S SUPERIORITY IN PRODUCTION AND TECHNOLOGY VIS-A-VIS THE WARSAW PACT HAS BEEN MAINTAINED BOTH IN QUANTITATIVE AND QUALITATIVE TERMS.

--PARA. 24 - PARAGRAPH NEEDS REVISION- THE FIRST PART

SHOULD ALSO DESCRIBE THE TREND IN DEFENSE SPENDING AS
A PERCENT OF GDP FOR THE NON-US NATO NATIONS COMBINED
AND DISCUSS RECENT TRENDS (I.E. TREND SINCE 1970) AS WELL
AS OVERALL TEN YEAR TREND.

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